

Sept 30, 2011



THE CBK WEEKLY BULLETIN

Highlights for the Week

Overall 12-month inflation rose by 65 basis points from 16.7 percent in August 2011 to 17.3 percent in September 2011, while annual average inflation rose from 9.0 percent in August 2011 to 10.2 percent in September 2011.

The government offered for sale Treasury bills worth Ksh 7 billion in 182-day and 91-day tenures, and a 12-year infrastructure bond worth Ksh 20 billion during the week ending September 30, 2011. The 182-day and 91-day Treasury bills were oversubscribed by Ksh 0.6 and Ksh 5.4 billion, resulting in performance rates equivalent to 120.4 percent and 234.1 percent, respectively. The infrastructure bond, on the other hand, recorded a performance rate of 66.5 percent. The average interest rates for the 182-day and 91-day Treasury bills edged up by 87.1 and 54.8 basis points to stand at 13.493 and 13.741 percent respectively, while the 12-year infrastructure bond average interest rate stood at 16.64 percent during the week.

Gross Government debt increased by Ksh 0.3 billion from Ksh 764.14 billion in June 2011 to Ksh 764.46 billion as at September 23, 2011. The cumulative interest and other charges on domestic debt from July 1, 2011 to September 23, 2011 amounted to Ksh 14.9 billion compared with Ksh 14.5 billion in the same period of the fiscal year 2010/11

The average interbank rate rose slightly to 6.09 percent during the week ending September 29, 2011 from 6.00 percent in the previous week. The Central Bank stayed out of the money market during the week.

The Kenya Shilling depreciated against major international currencies in the week ending September 30, 2011. The weakening of the shilling reflected increased risk aversion in the international currency market. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 100.82 in the week compared with Ksh 96.71 per US dollar in the week ending September 23, 2011.

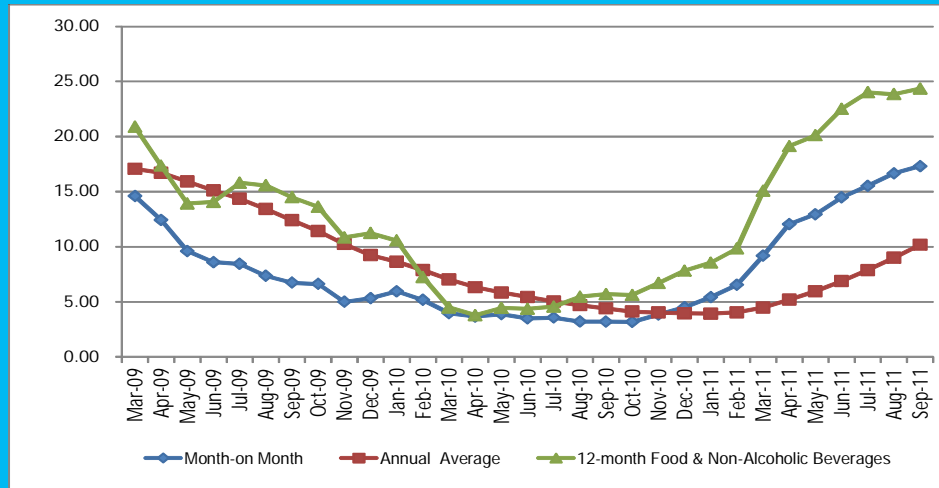
The usable official foreign exchange reserves held by the Central Bank declined further to US dollar 3,778 million (equivalent to 3.47 months of imports) as at September 30, 2011 from US dollar 3,823 million (equivalent to 3.52 months of imports) the previous week.

Activities at the equities market reflected a decline in performance during the week ending September 29, 2011. The NSE 20 Share Index and the Nairobi All Share Index (NASI) declined by 4.0 percent and 6.0 percent, respectively. The volume of shares traded fell by 31.1 percent, compared with 66 percent decline in the previous week. The slight improvement reflected also in the equity's market where turnover closed the week 17.8 percent higher. However, the bonds segment recorded a 49.3 percent drop in trading activity during the week.

Inflation

The overall 12-month inflation increased by 17.3 percent in September 2011, maintaining an upward trend since November 2010. The annual overall inflation also increased by 10.2 percent from 9 percent in August 2011 (Chart A). The inflation is attributed largely to increases in fuel and food prices. The Food and Non-Alcoholic Beverages index edged up by 24.4 percent. High food inflation in September 2011 was sustained by rising prices of sugar, beef, bread, milk and potatoes which masked falling prices of maize flour and maize grains. The Restaurant and Hotels index rose by 18.1 percent in September 2011, while the Housing, Water, Electricity, Gas and Other Fuels' index rose by 14.1 percent due to increases in the cost of electricity, house rents and cooking fuels. Inflation in the other categories of goods and services; namely, Furnishings, Household Equipment and Routine Household Maintenance; Clothing and Footwear; Recreation and Culture; Health; and Miscellaneous Goods and Services rose by between 8.0 and 9.8 percent in September 2011.

Chart A: Month-on-Month, Annual Average and 12-Month Food and Non-Alcoholic Beverages Inflation Rates



Source: Central Bank of Kenya

Government Securities Auction

The government offered for sale Ksh 3 billion in 182-day Treasury bills, Ksh 4 billion in 91-day Treasury bills and Ksh 20 billion in the infrastructure bond during the week ending September 30, 2011. Collectively, Treasury bills bids amounted to Ksh 13.0 billion, while those received for the infrastructure bond amounted to Ksh 13.3 billion. The government accepted competitive bids worth Ksh 9.2 billion in Treasury bills and Ksh 9.7 billion in the infrastructure bond during the week.

Interest Rates on Treasury Bills and Bonds

The weighted average interest rate on the 182-day and 91-day Treasury bills increased by 87.1 and 54.8 basis points to 13.493 percent and 13.741 percent, respectively, while the infrastructure bond average interest rate was 16.64 percent during this week's auctions (Table 1).

**Interbank
and REPO
Rates**

Table 1: Interest Rates

Auction date	19-Aug-11	26-Aug-11	2-Sep-11	9-Sep-11	16-Sep-11	23-Sep-11	30-Sep-11
91 day T. Bills*	9.258	9.708	10.281	11.685	12.570	13.193	13.741
182 day T. Bills*		10.356		9.285	11.935	12.622	13.493
364 day T. Bills*				12.536			
Month	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jul-11	Aug-11
Average savings rate	1.25	1.41	1.37	1.38	1.38	1.37	1.37
Average overdraft rate	13.93	13.65	13.60	13.68	13.72	13.89	14.28

*Weighted rates for accepted bids

Source: Central Bank of Kenya

The average interbank rate rose slightly to 6.09 percent during the week ending September 29, 2011 from 6.00 percent in the previous week. Reflecting stability in interbank liquidity the average interbank volumes traded declined to Ksh 9.10 billion in the week ending September 29, 2011 from Ksh 11.2 billion in the previous week (Table 2 and Chart B).

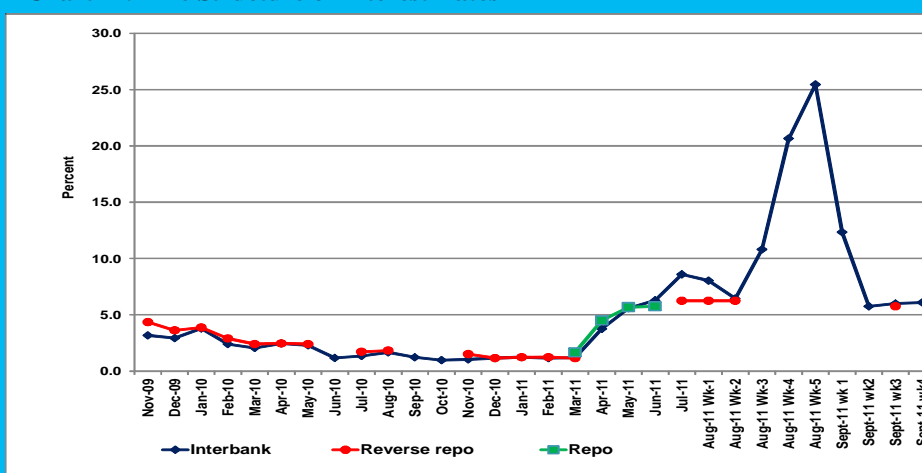
Table 2: Interbank Transactions

Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
16-Sep-11	77	13,718	5.19
17-Sep-11	86	15,722	5.63
20-Sep-11	83	13,563	6.78
21-Sep-11	52	6,854	7.30
22-Sep-11	39	6,020	6.92
Sept 16- Sept 22, 2011	67	11,175	6.36
23-Sep-11	48	5,969	6.38
24-Sep-11	40	3,760	6.34
27-Sep-11	47	8,460	5.65
28-Sep-11	76	14,927	5.92
29-Sep-11	65	12,390	6.18
Sept 23- Sept 29, 2011	55	9,101	6.09

Source: Central Bank of Kenya

The reverse repo rate was 5.75 percent for the last reverse repo transactions on September 20, 2011.

Chart B: The Structure of Interest Rates



Source: Central Bank of Kenya

**Monetary
Policy
Operations**

The money market liquidity stabilised during the week ending September 28, 2011. Commercial banks borrowed Ksh 0.5 billion from the Central Bank overnight window during the week ending September 28, 2011 compared with Ksh 5.9 billion in the previous week. Reserve money averaged Ksh 241.4 billion during the week and was above target by Ksh 16.8 billion (Table 3).

Table 3: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO (REPO)			Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/ Short(-)	Posted	Injected	Exc(+)/ Short(-)	Actual	Exc(+)/ Short(-)	Exc(+)/ Short(-)	Exc(+)/ Short(-)
	(1)	(2)	3=(1-2)	(4)	(5)	6=(5-4)	(7)	8=(7-2)	(9)	(10)
22-Sep-11	238.3	224.2	14.1	0.0	0.0	0.0	238.9	14.7	8.9	5.9
23-Sep-11	244.2	224.2	20.0	0.0	0.0	0.0	243.3	19.1	14.2	4.9
26-Sep-11	245.3	224.9	20.3	0.0	0.0	0.0	246.1	21.2	16.1	5.1
27-Sep-11	248.6	224.9	23.7	0.0	0.0	0.0	247.5	22.6	17.0	5.6
28-Sep-11	231.9	224.9	7.0	0.0	0.0	0.0	231.2	6.3	0.8	5.5
Average	241.7	224.6	17.0	0.0	0.0	0.0	241.4	16.8	11.4	5.4

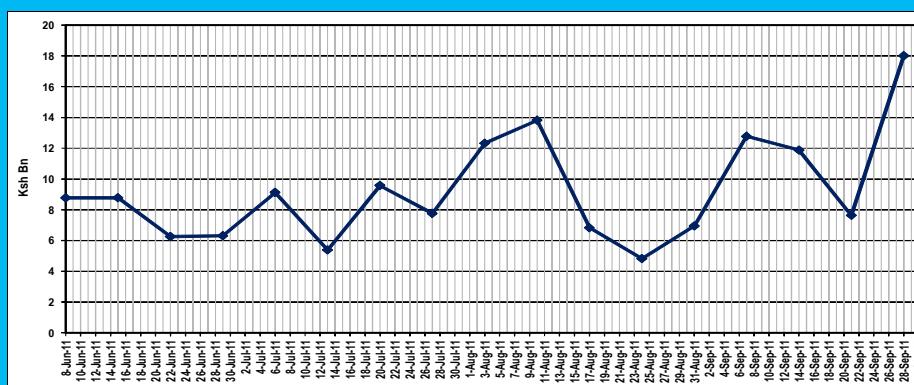
*Reserve money comprises bank reserves and currency outside banks

Source: Central Bank of Kenya

**Commercial
Banks
Clearing
Account
Balances**

Commercial banks maintained an average of Ksh 18.0 billion excess revenues in relation to the statutory 4.75 percent monthly average cash reserve requirements at the Central Bank in the week to September 28, 2011, compared with Ksh 7.6 billion in the previous week (Chart C).

Chart C: Weekly Average Commercial Banks Clearing Account Balances



Source: Central Bank of Kenya

**The Shilling
Exchange
Rate**

The Kenya Shilling depreciated against major international currencies in the week ending September 30, 2011. The weakening of the shilling reflected increased risk aversion in the international currency market. Against the US dollar, the Kenya shilling depreciated to exchange at an average of Ksh 100.82 in the week compared with Ksh 96.71 per US dollar in the week ending September 23, 2011. The Kenya Shilling also depreciated against the Sterling Pound, the Euro and the Japanese Yen to exchange on average at Ksh 157.05 per Sterling Pound and Ksh 136.47 per Euro, and 131.98 per 100 Japanese Yen compared with Ksh 150.80 per Sterling Pound and Ksh 131.54 per Euro, and 126.29 per 100 Japanese Yen in the previous week.

In the EAC region, the Kenya Shilling depreciated against the other East African currencies during the week ending September 30, 2011. On average, the Kenya Shilling exchanged at Ushs 28.32 per Kenya Shilling, Tshs 16.53 per Kenya Shilling, RWF 5.95 per Kenya Shilling and BIF 12.26 per Kenya Shilling during the week, compared to Ushs 29.05 per Kenya Shilling, Tshs 16.93 per Kenya Shilling, RWF 6.19 per Kenya Shilling and BIF 12.77 per Kenya Shilling, in the week ending September 23, 2011 (Table 4).

Table 4: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
19-Sep-11	95.19	149.63	130.25	123.82	29.21	17.20	6.30	12.95
20-Sep-11	95.84	150.20	130.40	125.19	29.06	17.08	6.25	12.87
21-Sep-11	96.03	151.00	131.58	125.81	29.09	17.03	6.23	12.88
22-Sep-11	97.58	150.89	132.12	127.05	28.64	16.81	6.13	12.65
23-Sep-11	98.89	152.26	133.35	129.56	29.22	16.55	6.05	12.48
Sept 05 -Sept 09, 2011	96.71	150.80	131.54	126.29	29.05	16.93	6.19	12.77
26-Sep-11	99.06	152.97	132.72	130.11	29.04	16.71	6.04	12.48
27-Sep-11	101.95	158.91	138.09	133.65	27.81	16.43	5.87	12.12
28-Sep-11	102.01	159.22	138.29	133.04	27.94	16.50	5.87	12.10
29-Sep-11	101.23	158.40	137.86	132.58	28.25	16.35	5.94	12.20
30-Sep-11	99.83	155.78	135.38	130.54	28.55	16.65	6.01	12.37
Sept 26 -Sept 30, 2011	100.82	157.05	136.47	131.98	28.32	16.53	5.95	12.26

Source: Central Bank of Kenya

Foreign Exchange Reserves

The usable official foreign exchange reserves held by the Central Bank declined further to US dollar 3,778 million (equivalent to 3.47 months of imports) as at September 30, 2011 from US dollar 3,823 million (equivalent to 3.52 months of imports) the previous week (Table 5)

Table 5: Official Foreign Exchange Reserves (US\$ Million)

	29-Jul-11	12-Aug-11	19-Aug-11	16-Sep-11	23-Sep-11	30-Sep-11
Usable Reserves*	3,976	3,948	3,967	3,836	3,823	3,778
Months of Imports Cover**	3.73	3.69	3.68	3.53	3.52	3.47

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-factor services

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government debt increased by Ksh 0.3 billion from Ksh 764.14 billion in June 2011 to Ksh 764.46 billion as at September 23, 2011 (Table 6 and Chart D). The build up reflected Ksh 17.8 billion increase in the Government overdraft at the Central Bank, against partially offsetting net redemptions of Ksh 12.5 billion, Ksh 4.8 billion and Ksh 0.2 billion in the stocks of Treasury bills, Treasury bonds and other domestic debt, respectively during the period.

Table 6: Government Domestic Debt (Ksh Billion)

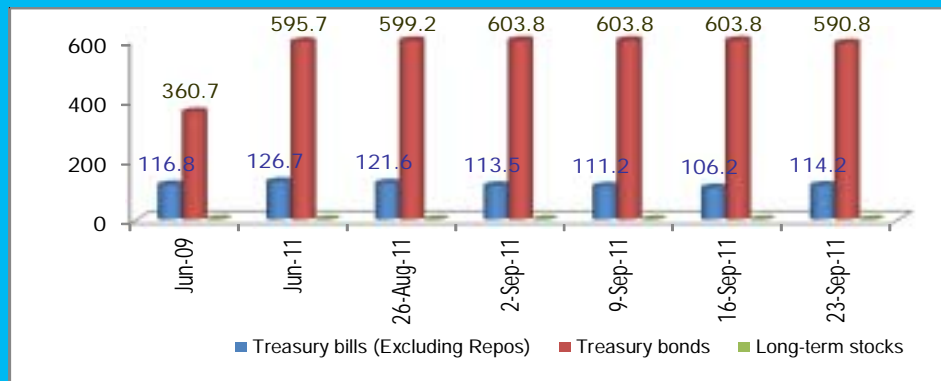
	Jun-11	Jul-11	Aug-11	16th Sep-2011	23rd Sep-2011	Changes	
						16th Sep 2011-23rd Sep 2011	30th Jun 2011-23rd Sep 2011
1. Treasury Bills (Excluding Repos) (As % of total securities)	126.7 17.5	119.3 16.6	113.5 15.8	106.2 15.0	114.2 16.2	8.1	-12.5
2. Treasury Bonds (As % of total securities)	595.7 82.5	601.0 83.4	603.8 84.2	603.8 85.0	590.8 83.8	-13.0	-4.8
3. Total Securities (1+2+3)	722.4	720.3	717.3	710.0	705.1	-4.9	-17.3
4. Overdraft at Central Bank	7.6	19.9	25.4	25.4	25.4	0.0	17.8
5. Other Domestic debt*	34.2	41.5	33.1	34.2	34.0	-0.2	-0.2
6. Gross Domestic Debt (4+5+6)	764.14	781.71	775.80	769.58	764.46	-5.1	0.3
7. Interest payments on domestic debt	69.2	2.75	11.50	12.19	14.93	2.7	

* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and TRCs.

Source: Central Bank of Kenya

Treasury bills declined from Ksh 126.7 billion in June 2011 to Ksh 114.2 billion as at September 23, 2011. As a result, the share of Treasury bills in total government securities declined from 17.5 percent to 16.2 percent. For Treasury bonds both the outstanding stocks and share in total securities, therefore, increased during the period (Table 6). The average time to maturity of Government securities increased from 5 years 10 months in June 2011 to 5 years 11 months as at September 23, 2011.

Chart D: Composition of Government Securities

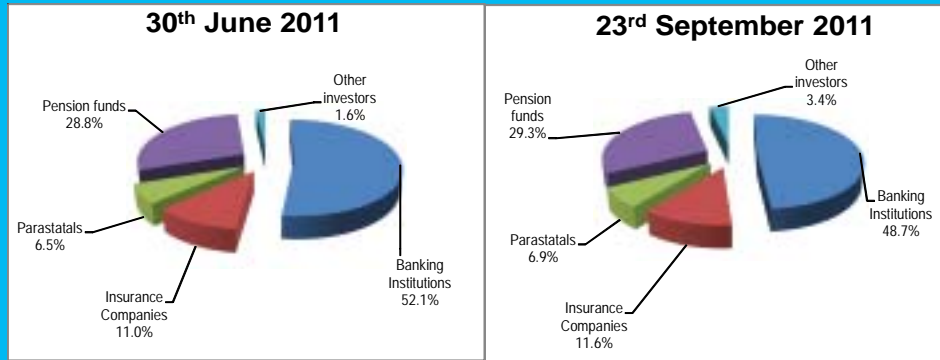


Source: Central Bank of Kenya

Holding of Government Securities

The share of Government securities held by banking institutions decreased from 51.2 percent in June 2011 to 48.7 percent as at September 23, 2011. Holdings of insurance, pension fund and other investors increased from 11.0 percent, 28.7 percent and 1.6 percent to 11.6 percent, 29.3 percent and 3.4 percent, respectively, during the period (Chart E).

Chart E: Composition of Government Securities by Investor

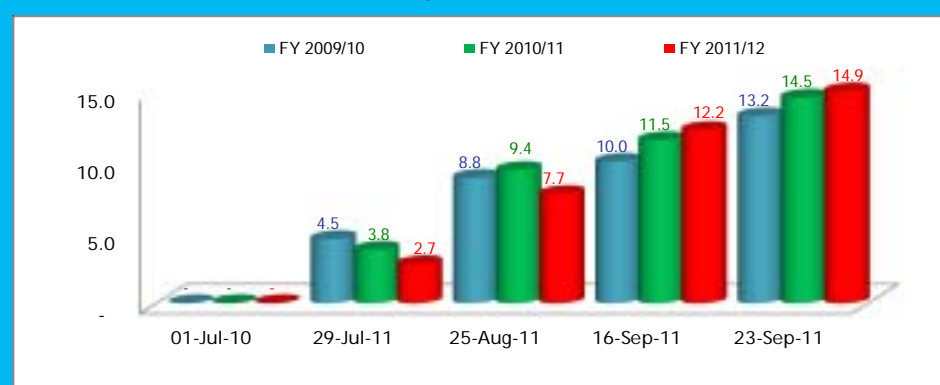


Source: Central Bank of Kenya

Cost of Domestic Borrowing

The cumulative interest and other charges on domestic debt from July 1, 2011 to September 23, 2011 amounted to Ksh 14.9 billion compared with Ksh 14.5 billion in the same period of the fiscal year 2010/11 (Chart E). The debt service during the period under review was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 2.2 billion and Ksh 12.5 billion, respectively. Interest on government overdraft at Central Bank accounted for Ksh 0.2 billion.

Chart F: Cumulative Interest Payments on Domestic Debt



Source: Central Bank of Kenya

The Stock Market

The NSE 20 Share Index closed the week at 3,291.8 points on September 29, 2011, down from 3,430.3 points on September 22, 2011. The NASI also dropped to 70.07 points from 74.55 points during the previous week. The number of shares transacted decreased to 54.4 million from 78.9 million the previous week. Equity turnover gained Ksh 151.2 million to trade stocks worth Ksh 1,001.7 million by close of September 29, 2011, from Ksh 850.4 million the previous week. Market Capitalization as a measure of total shareholders' wealth, fell by 3.2 percent or Ksh 30 billion to level at Ksh 909.8 billion from last week's value of Ksh 939.9 billion. The total number of deals declined by 24.4 percent to 4,645 during the week from 6,141 the previous week.

Table 7: Key Weekly Market Statistics

Week Ending	4-Aug-11	11-Aug-11	19-Aug-11	25-Aug-11	1-Sep-11	8-Sep-11	15-Sep-11	22-Sep-11	29-Sep-11
NASI 100= Jan 2008	84.75	78.95	78.82	76.14	75.24	74.62	75.06	74.55	70.07
NSE 20 Share Index 100=1966	3,744.59	3,519.28	3,540.42	3,444.28	3,402.00	3,400.68	3,464.65	3,430.27	3,291.79
Number of Deals	7,215	7,413	6,609	6,722	5,022	5,922	5,257	6,141	4,645
Total Shares Traded (millions)	154.43	84.59	155.35	100.31	94.33	230.70	142.36	78.96	54.43
Equity Turnover (Ksh. millions)	1,339.11	1,394.12	1,384.67	1,343.85	820.65	1,609.50	1,335.67	850.48	1,001.73
Market Capitalization (Ksh. Bn.)	1,057.69	985.19	983.60	950.20	939.05	961.11	944.79	939.93	909.83
Bonds Turnover (Ksh. millions)	15,374.30	10,297.75	10,414.50	6,883.80	6,518.50	10,138.05	8,578.90	8,904.65	4,511.90

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 1, 2008 = 100)

Source: Nairobi Stock Exchange

Telecommunication and Technology sector dominated trading, with 41.1 million shares, accounting for 55.4 percent of all shares transacted at the bourse. Safaricom was the most active counter, with 40.7 million shares traded. Banking sector followed, with 17.9 million shares traded, and Energy and Petroleum sector closed third best with 5.8 million shares. Barclays Bank and Kenya Power and Lighting dominated Banking and Energy and Petroleum sectors, respectively. The least active sector was Construction and Allied, with 194,200 shares traded.

Bond Market Bonds trading at the Fixed Income Securities Market dropped by 49.3 percent from Ksh 8.9 billion for the week ending September 22 to Ksh 4.5 billion for the week ending September 29, 2011. Total deals transacted over the period also decreased to 52 from 85 the previous period.